



MID-YEAR REPORT

Inclusive Finance for Under-Served Economy (INFUSE)

UNDP Code: 00061961
UNCDF Code: 00062359

From: January - June 2009

Report Date: August 2009



COUNTRY-LEVEL JOINT PROGRAMME ANNUAL NARRATIVE PROGRESS REPORT

REPORT COVER PAGE

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| Participating UN Organizations: UNCDF, UNDP | Area/Theme: Inclusive Finance | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Joint Programme No. UNDP-BU: 00050242 (Award ID), 00061961(Project ID) UNCDF-BU: 00050456 (Award ID), 00062359 (Project ID) Joint Programme Title: Inclusive Finance for Under-served Economy (INFUSE) ATLAS No: (assigned by MDTF Office) 00055655 (Award ID), 00067655 (Project ID) | Total JP Budget (in US\$): US\$5,000,000 <div style="text-align: right;"><u>Pass-through funding</u></div> Donor: N/A | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Report Number: 02 Reporting Period: January – June 2009 | Joint Programme Budget by Participating UN Organization (for pass-through funding only): Name of Organization: UNCDF: US\$1,050,000 UNDP: US\$500,000 | | | | | | | | | | | | | | | | | | | | | | | | | | |
| List of Partners: <ul style="list-style-type: none"> • Microfinance Institutions (MFIs) and Financial Services Providers (FSPs) | Programme Coverage/Scope: Countrywide (13 districts) | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Abbreviations and acronyms: <table style="width: 100%; border: none;"> <tr><td style="width: 15%;">BOP</td><td>“Bottom of the Pyramid”, the poor and low-income population</td></tr> <tr><td>BPA</td><td>Banking and Payments Authority</td></tr> <tr><td>CTA</td><td>Chief Technical Adviser</td></tr> <tr><td>FIF</td><td>Fund for Inclusive Finance</td></tr> <tr><td>FSPs</td><td>Financial Services Providers</td></tr> <tr><td>GoTL</td><td>Government of Timor-Leste</td></tr> <tr><td>INFUSE</td><td>Inclusive Finance for the Under-Served Economy</td></tr> <tr><td>MCIF</td><td>Management Committee for Inclusive Finance</td></tr> <tr><td>MDG(s)</td><td>Millennium Development Goal(s)</td></tr> <tr><td>MFIs</td><td>Microfinance Institutions</td></tr> <tr><td>MoED</td><td>Ministry of Economy and Development</td></tr> <tr><td>TA</td><td>Technical Assistance/Assistant</td></tr> <tr><td>UNCDF</td><td>United Nations Capital</td></tr> </table> | BOP | “Bottom of the Pyramid”, the poor and low-income population | BPA | Banking and Payments Authority | CTA | Chief Technical Adviser | FIF | Fund for Inclusive Finance | FSPs | Financial Services Providers | GoTL | Government of Timor-Leste | INFUSE | Inclusive Finance for the Under-Served Economy | MCIF | Management Committee for Inclusive Finance | MDG(s) | Millennium Development Goal(s) | MFIs | Microfinance Institutions | MoED | Ministry of Economy and Development | TA | Technical Assistance/Assistant | UNCDF | United Nations Capital | Programme/Project Timeline/Duration <u>Overall Duration:</u> 2008 - 2012 <u>Original Duration:</u> 2008 - 2012 <u>Programme/ Project Extensions:</u> N/A |
| BOP | “Bottom of the Pyramid”, the poor and low-income population | | | | | | | | | | | | | | | | | | | | | | | | | | |
| BPA | Banking and Payments Authority | | | | | | | | | | | | | | | | | | | | | | | | | | |
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| FSPs | Financial Services Providers | | | | | | | | | | | | | | | | | | | | | | | | | | |
| GoTL | Government of Timor-Leste | | | | | | | | | | | | | | | | | | | | | | | | | | |
| INFUSE | Inclusive Finance for the Under-Served Economy | | | | | | | | | | | | | | | | | | | | | | | | | | |
| MCIF | Management Committee for Inclusive Finance | | | | | | | | | | | | | | | | | | | | | | | | | | |
| MDG(s) | Millennium Development Goal(s) | | | | | | | | | | | | | | | | | | | | | | | | | | |
| MFIs | Microfinance Institutions | | | | | | | | | | | | | | | | | | | | | | | | | | |
| MoED | Ministry of Economy and Development | | | | | | | | | | | | | | | | | | | | | | | | | | |
| TA | Technical Assistance/Assistant | | | | | | | | | | | | | | | | | | | | | | | | | | |
| UNCDF | United Nations Capital | | | | | | | | | | | | | | | | | | | | | | | | | | |

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| UNDP | Development Fund United Nations Development Programme | |
| UNDG | UN Development Group | |

PROGRESS NARRATIVE REPORT
OF
INCLUSIVE FINANCE FOR UNDER-SERVED ECONOMY [INFUSE]

I. Purpose

The overall goal of the INFUSE Programme is to contribute to the achievement of the Millennium Development Goals (MDGs), in particular the Goal 1 of cutting absolute poverty in Timor-Leste by one third by 2015, by increasing sustainable access to financial services for the poor and low-income people, both women and men. INFUSE will focus on increasing access by poor and low-income people to sustainable financial services while taking a sector approach in addressing these issues. In order to achieve its goal, specific activities will be designed and implemented to respond to the programme outputs as mentioned above.

At the end of the Project implementation, INFUSE aims to achieve the above goal through the following outputs:

- Output 1: Policy development and strategic coordination to enhance the enabling environment
- Output 2: Facilitation of the growth and long-term sustainability of the retail financial service providers, so that they can increase their outreach to poor and low-income people; and
- Output 3: Development of financial business support infrastructure (credit registry, audit, information technology, innovative technology).

INFUSE Programme in relation with UNDAF

The expected outcome of the project is to enable the vulnerable groups to improve access to sustainable financial services. This is in line with the UNDAF outcome 2: By 2013, vulnerable groups experience significant improvement in sustainable livelihoods, poverty reduction & disaster risk management within an overarching crisis preventions and recovery context.

Specifically, the Programme is linked to the following Country Programme Outcome and Output:

Country Programme Outcome 3: Vulnerable groups have improved access to livelihoods
Country Programme Output 3.1: Rural communities have microenterprises through improved microfinance & access to markets.

INFUSE is also aligned with the National Priority # 2 under the National Priorities 2009 framework the relevant objective of which is to deliver support to Financial Service Providers and to increase access to microfinance services by low-income population by an additional 5,000 clients of which at least 50% women.

Operational and implementation arrangements

Inclusive Finance for Under-Served Economy (INFUSE) is jointly implemented by UNDP and UNCDF. UNDP as Administrative Agent supports administrative and logistical arrangements, while UNCDF provides technical assistance to the Programme. In order to harmonize funding and programme implementation, both UNCDF and UNDP roles in the project are regulated in a Joint Programme Document and in terms of regulations, defined by the UN Development Group (UNDG).

In the course of implementation of this programme, and in monitoring and reporting on progress, UNDP, UNCDF and other future associated UN agencies will collaborate according to the regulations for Joint Programmes as these are issued by UNDG.

Although each of the implementing agencies will have their own roles in the implementation of the Joint Programme, each of the agencies will have to agree and understand that the administration of this Programme shall be governed by UNDP rules and regulations, which UNCDF also adopts, as defined in the Resource Management Guide within the policy context defined by the Executive Board.

Government Counterpart

The Government of Timor-Leste (GoTL), especially the Minister of Economy and Development (MoED) is the main national counter-part of the INFUSE programme and chairs the Management Committee for Inclusive Finance (MCIF)¹ of the Fund for Inclusive Finance (FIF) and provides overall guidance and direction to the programme.

Interaction between UNDP, UNCDF with Government Counterpart and Other Stakeholders

The programme will hold the MCIF at least twice a year which will lead the FIF to coordinate funding to Financial Services Providers (FSPs) serving the lower segments of the financial sector, networks, and business service providers in order to make efficient use of public resources, avoiding duplication and over-subscription. Donors and private investors supporting financial retail or business service providers will be encouraged to join the MCIF. The MCIF will review the business plans and funding proposals from FSPs and business services providers with jointly-established eligibility, selection, performance monitoring and reporting standards and criteria. The Programme Implementation Unit (PIU) serves as a secretariat to the MCIF, carries out appraisals of proposals to facilitate review by the Committee, as well as monitor and report progress of investees to the Committee.

In addition, the MCIF and investees supported under the programme will meet at least once a year to review progress achieved; and actively discuss constraints and opportunities to support the development of an inclusive financial sector. These annual meetings shall be hosted by the chair of the MCIF (i.e. MoED). Recommendations emerging from these discussions will be referred to the respective bodies with the mandate to review and implement, where possible.

The PIU was established in September 2008, and is headed by a Chief Technical Adviser (CTA).

¹ This was called Investment Committee (IC) in the original Programme Document.

In addition, three national staff recruited on time-bound service contracts for the Secretariat: a National Project Officer acting as Deputy CTA; an Administration and Finance Officer; and a driver cum clerk.

The programme assurance is provided by a UNCDF Programme Officer (backstopped by a UNDP Programme Officer when required). The technical backstopping, advice and overall guidance to the programme are provided by UNCDF Regional Technical Advisor based in the Pacific, UNDP Senior Assistant Country Director for Poverty Reduction and Environment, and Deputy Director for Inclusive Finance Practice Area, UNCDF-HQ.

II. Resources

Financial Resources

The Ministry of Economy and Development (MoED) signed the Standard Administrative Arrangement in June 2009 regarding GoTL's financial contribution of USD 300,000 to INFUSE programme. As at the end of June 2009, the government is still in the process of transferring the funds to the Programme. This new government funds would show the strong commitment from the Government of Timor-Leste to the inclusive finance sector in the country.

III. Implementation and Monitoring Arrangements

Implementing and monitoring arrangements are very important tools to assess the progress against the targets of the project. The INFUSE team has developed a reporting table in order to keep periodic records to the grant and loan movements within two FSPs: e.g. MR and TRM.

IV. Results: Progress of the project activities

Details of each achievement made in supporting activities during the reporting period (January-June 2009) can be summarized as follows:

- Establishment of MCIF (Management Committee for Inclusive Finance):
 - The MCIF was established and it held its first meeting on 26 January 2009.
 - The MCIF members included the Minister for Economy and Development (also serve as a chair of MCIF), Advisor to the Minister of MoED, UNCDF Regional Technical Advisor, UNDP Country Director, Senior Assistant Country Director / Head of Poverty Reduction and Environment Unit, and two Programme Officers from UNCDF and UNDP.
 - The meeting was organized by INFUSE team as the secretariat and the meeting was also observed by two senior management staff from the Banking Payment Authority (BPA).
 - Proposals for loan and grant, which were submitted by two Microfinance Institutions (e.g. Moris Rasik and Tuba Rai Metin), were reviewed and approved for funding.
- Standard Administrative Arrangement (SAA): The SAA was signed between UNDP and

the Minister of Economy and Development (MoED) in the beginning of June 2009. With the SAA, the Government of Timor-Leste through MoED decided to contribute US\$300,000 to support INFUSE programme.

- Recruitment of Project driver: The project driver was recruited in April 2009 in order to support programme staff in the movement of implementing project activities including meetings and field visits.

Detailed progress under each output is as follows:

OUTPUT 1: ACHIEVING A POLICY/VISION STATEMENT

- Microfinance Regulation:
 - INFUSE is in the process of sending the BPA's senior staff to attend Boulder Microfinance training in Turin, Italy from 20 July to 7 August 2009.
 - This training intends to improve their knowledge and capacity on Microfinance Policy, Regulation and Supervision, Management and regulation of Microfinance Institution transformation as well as Microcredit methodology.
 - This training will develop the skill of BPA in drafting new microfinance regulations, which is expected to begin in 2009.
- National Priority 2 Working Group on Rural Development:
 - Technical inputs were provided to the National Priority Working Group 2 (Rural Development) on regular basis.
 - The National Priority Working Group 2 (Rural Development) is working on promoting rural economy, among others, by promoting registration of cooperatives; and by support to financial service providers to become sustainable and increase access to microfinance services by low income population, including cooperative members.
 - As per its targets, by the end of June 2009, baseline data on access to financial service by low income population was collected and shared with NP 2 Working Group.

OUTPUT 2: INCREASED OUTREACH OF SUSTAINABLE FINANCIAL SERVICES

- Institutional Diagnostic Assessment for TRM:
 - From 30 March to 2 April 2009 an Institutional Diagnostic Assessment was conducted for TRM by M-CRIL (MicroRating International from India).
 - The Institutional Diagnostic was one of the conditions required by MCIF members for TRM to fulfill to become eligible to obtain loan capital from INFUSE.
- Academy for Microfinance Development in Asia (AMIDA) Training:
 - In April 2009 INFUSE sent three senior managerial staff of TRM to attend

AMIDA course on Delinquency Management and Liquidity Management in Bali – Indonesia.

- Upon return they conducted a workshop on June 12, 2009 to share the information and knowledge with their staff from all branch offices.
- Grants:
 - Grants for two MFIs were signed in March 2009 and funds were transferred to their accounts and confirmed receipts on 17 April 2009.
 - Moris Rasik (MR) received the grant of US\$ 20,000 for training and exposure visit. For training they sent two senior staff (Managing Director and Deputy General Manager) to attend AMIDA course in Indonesia, where they also conducted a two-day exposure visit to an MFI called Mitra Business Kecil (MBK) in Jakarta.
 - TRM received the grant of US\$ 1,200 for English course. Three TRM senior managers are currently attending English course at the LELY/Lorosae English course in Dili for six months (June – November 2009).
- Loans:
 - MCIF committee decided and approved US\$ 230,000 for loan capital for MR and the fund will be transferred in three tranches.
 - Loan capital for MR was signed in June 2009 and the first tranche of US\$ 100,000 was transferred and confirmed the receipt into their account on 12 June 2009.
 - MCIF committee decided to provide TRM with US\$ 150,000 for loan capital with strict condition in each disbursement, such as undergoing the Institutional Diagnostic (done), submitting legal registration with the Ministry of Justice (MoJ), establishment of new Board of Directors, and implementing a cash flow tool.
 - As of end June 2009 TRM has not yet completed some of the above requirements in order to receive the first tranche of loans.
- Project linkage with UNCDF-programme “Microlead”
 - Support was provided to an Indian-based microfinance organization, BASIX Ltd. (Bhartiya Samruddhi Investments and Consulting Services, Ltd.), which visited Timor-Leste in early February 2009 to conduct the feasibility study for the project proposal to UNCDF-led programme called “MicroLead”.
 - Microlead is the global programme with LDC (Least Developed Countries) fund to develop savings-led market leaders for inclusive finance, and BASIX Ltd. has been selected to conduct the technical assistance to TRM under this Microlead programme.
 - Since both INFUSE and Microlead will support TRM, the two programmes are closely collaborating in terms of technical assistance to TRM.

OUTPUT 3: PROMOTING A BUSINESS SERVICES INFRASTRUCTURE

Not Applicable

CHALLENGES:

- By the end of the reporting period, funds from the government were not received in the project account. An early transfer of funds from the Government to INFUSE will enable the project to plan its activities better.
- The project team at present has no office space and is temporarily seated in UN compound. As the project has to consult the MoED on a regular basis, this arrangement is time-consuming and not workable in long run. It will be desirable for the project team to be seated within the same building as the MoED. This issue will need to be addressed as soon as possible.
- As the INFUSE program is expending activities, it took considerable time to develop the appropriate approved formats and determine the correct procedures for processing the payments on grants, loans and direct technical assistance.

V. Future Work Plan

In order to achieve its targets and goals, the project is implementing activities according to the 2009 Annual Work Plan. The activities included reviewing and approving the proposals from two MFIs (MR and TRM). MR confirmed the receipts of both grant and loan disbursement into their account. In the next six months, INFUSE will closely monitor how the grant and loans are being utilised. For TRM, they are only eligible for the grant at the moment as they need to complete some of the conditions prior to receiving loans. INFUSE will continue to support TRM to meet the criteria (e.g. establishment of new board of directors, registration with MoJ, etc.). Other prospective activities in TA include providing the representatives of BPA and IMfTL as well as INFUSE CTA with the training organised by the Boulder Microfinance Institute.

In terms of the collaboration with other initiatives, INFUSE will closely coordinate with BASIX Ltd., which will provide the long-term technical assistance to TRM under UNCDF-led Microlead. BASIX Ltd. was in field in June-July 2009 to identify the areas of improvement for TRM and prepare the project activity plan for 5 years. INFUSE will ensure that activities are implemented in harmonised way and without overlap with BASIX Ltd.

Within next six months, the project is also intended to organise another MCIF meeting in order to seek more proposals from FSPs in Timor-Leste.